

## Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 INT-08 SCI-06 SCEM-02 STR-08 IO-14 AF-10

EA-11 EUR-25 NEA-10 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 AID-20 COME-00 EB-11 FRB-02 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 DRC-01 /255 W

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R 142052Z DEC 73

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 2121

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E.O. 11652: N/A

TAGS: ENRG VE

SUBJECT: ROYALTY OIL PROBLEMS

REF: CARACAS 10357

1. MANY OFFICIALS OF VENEZUELAN STATE OIL COMPANY (CVP) ARE OF COURSE GREATLY DISAPPOINTED BY GOVERNMENT DECISION NOT TO TAKE OIL ROYALTIES IN KIND BUT RATHER TO ADJUST UPWARD, THROUGH AGREEMENT WITH OIL COMPANIES, FORMULA BY WHICH ROYALTY PAYMENTS CALCULATED. STORIES CONTINUE TO APPEAR IN PRESS, OBVIOUSLY PROMPTED BY CVP, THAT GOVERNMENT WILL YET FORCE PAYMENT OF ROYALTIES IN FORM OF OIL. SOME STORIES HAVE ATTEMPTED TO GIVE IMPRESSION THAT SUCH A DECISION IS IMMINENT BUT LATEST STORY WHICH APPEARED IN EL NACIONAL DECEMBER 13, WHICH PURPORTS TO BE BASED NOT ONLY ON CVP SOURCES BUT SOURCES IN MINISTRY OF MINES AND HYDROCARBONS, GIVES DIFFERENT VIEW: IT SUGGESTS ROYALTY PROBLEM IS STILL UNDER STUDY BUT THAT NO DECISION CAN BE EXPECTED FOR AT LEAST THREE MONTHS. LATEST STORY SPEAKS OF TWO POSSIBLE PATHS THAT COULD BE FOLLOWED IF VENEZUELAN GOVERNMENT

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DECIDED TO TAKE ROYALTIES IN KIND: THE ROYALTY OIL

COULD BE EITHER TURNED OVER TO THE CVP FOR MARKETING,  
OR IT COULD BE SOLD DIRECTLY AS IN IRAN BY GOVERNMENT  
AUCTION.

2. CVP'S DIRECTOR OF INTERNATIONAL NEGOTIATIONS, LEONARDO MOEIRO, RECENTLY TOLD PETROLEUM ATTACHE THAT, EVEN IF GOVERNMENT HAD DECIDED TO FORCE PAYMENT OF ROYALTIES IN KIND, OIL WOULD NOT NECESSARILY HAVE BEEN DIVERTED FROM U.S. MARKET. MOLEIRO EMPHASIZED THAT HE HAS ON HIS DESK NUMEROUS OFFERS FROM U.S. BUYERS WHO HAD HOPED TO GET ROYALTY OIL FROM CVP, AND A LARGE PORTION OF ROYALTY OIL WOULD HAVE CONTINUED TO FLOW TO U.S. MOLEIRO ALSO SAID VERY CONFIDENTIALLY, EMPHASIZING THAT HE WOULD DENY IT IF EVER QUOTED, THAT HE HAD RECEIVED LETTER FROM HIS CLOSE FRIEND, FOREIGN MINISTER CALVANI, SUGGESTING TO HIM THAT CALVANI COULD SEE NO VENEZUELAN INTEREST IN DISRUPTING FLOW OF OIL TO VENEZUELA'S VALUED TRADITIONAL CUSTOMER, THE U.S., IN ORDER TO SUPPLY OIL TO, FOR EXAMPLE, BRAZIL. MOLEIRO SAID THAT HE AGREED WITH CALVANI. OBVIOUSLY CALVANI'S LETTER TO MOLEIRO WAS ONE OF FRUITS OF AMBASSADOR'S REPRESENTATIONS TO FOREIGN MINISTER, ASKING HIM TO AVOID ANY ACTIONS THAT WOULD DIVERT OIL AWAY FROM U.S. MARKET. APPARENTLY, MOLEIRO HAD NO KNOWLEDGE OF AMBASSADOR'S DEMARCHE AND PETROLEUM ATTACHE DID NOT, OF COURSE, MENTION IT TO HIM.

3. COMMENT: EMBASSY CONTINUES TO BELIEVE THAT, AS REPORTED CARACAS 10357, VENEZUELA WILL HONOR SIX MONTHS AGREEMENT SIGNED IN NOVEMBER UNDER WHICH COMPANIES CONTINUE TO PAY ROYALTIES IN CASH, BUT AT HIGHER LEVEL. MANY THINGS CAN CHANGE DURING THIS SIX MONTHS AND VENEZUELAN GOVERNMENT WILL OBVIOUSLY CONTINUE TO KEEP QUESTION UNDER REVIEW IN LIGHT OF CHANGING CIRCUMSTANCES. WHETHER VENEZUELAN GOVERNMENT DECIDES TO TAKE ROYALTIES IN KIND FOLLOWING EXPIRATION OF AGREEMENT WITH OIL COMPANIES WILL PROBABLY DEPEND GREATLY ON EVOLUTION OF WORLD PETROLEUM SITUATION. IT WILL ALSO DEPEND ON FUTURE PETROLEUM POLICIES OF NEW VENEZUELAN GOVERNMENT WHICH TAKES OFFICE NEXT MARCH. FONMIN CALVANI TOLD AMBASSADOR TODAY THAT PRESIDENT CALDERA WILL TAKE NO NEW INITIATIVES BEFORE END OF HIS ADMINISTRATION.  
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## Message Attributes

**Automatic Decaptioning:** X  
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**Current Classification:** UNCLASSIFIED  
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